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STATEMENT OF JAMES M. BEGGS, UNDER SECRETARY OF TRANSPORTATION, BEFORE THE SENATE SUBCOMMITTEE ON SURFACE TRANSPORTATION OF THE SENATE COMMERCE COMMITTEE, CONCERNING AMENDMENTS TO THE RAIL PASSENGER SERVICE ACT OF 1970, TUESDAY, OCTOBER 26, 1971.

Mr. Chairman and Members of the Committee:

I appreciate this opportunity to appear before you today to discuss the Department of Transportation's proposed legislation providing additional financial assistance for the National Railroad Passenger Corporation (Amtrak). I also wish to acknowledge our appreciation of the timeliness of this hearing, Mr. Chairman. I recognize that it represents the interest and concern which you and this Committee share for preserving and improving rail passenger service in this country.

The Rail Passenger Service Act of 1970 (the Act) is now reaching its first anniversary, having been enacted on October 30th of last year. It is important to remember, however, that Amtrak has conducted rail passenger operations for a period of less than six months. The Act provided that before operations were to be initiated by Amtrak, several important preliminary steps had to be taken. First, the Act required the Secretary to designate a Basic National Rail Passenger System. This was a three-part procedure calling upon the Department to propose within 30 days of enactment a system specifying the points between which inter-city trains should be operated and the routes which could be used. An additional 30 days was then provided for a review of the proposed system

by the Interstate Commerce Commission, State commissions and railroad and labor representatives. Finally, the Secretary was required to submit to Congress its final report designating the basic system no later than 90 days after enactment of the Act. This was completed on January 28, 1971.

While the basic system was being developed and established by the Department, Amtrak had to begin the difficult job of organizing a unique and complex corporation, establishing a basic framework of operations, and negotiating contracts with over twenty railroads in order to assume the responsibility for the provision of intercity rail passenger service. The corporation, through much dedication and hard work, accomplished these basic and important tasks within the six-month deadline established by the Act and began operations on May 1, 1971.

The initial capitalization of Amtrak was provided through a \$40 million grant from the Department and by payment from the railroads, over a 36-month period, of approximately \$200 million in consideration of Amtrak relieving them from the responsibility of providing intercity passenger service. As Amtrak approaches the end of six months of actual operations, their forecasts indicate that this level of financing and the revenues obtained from rail passenger operations are inadequate for the corporation to make the necessary investments in equipment and facilities, and to maintain and improve the planned level of service. In fact, Amtrak's current cash flow analysis indicates the corporation cannot meet its planned level of obligations through the remainder of this

fiscal year. Amtrak estimates that it will have a deficit of about \$150 million for the current fiscal year and a \$125 million deficit for fiscal year 1973.

The bill the Department has proposed would authorize the Secretary to provide Amtrak with the additional funds necessary to continue its operations until July 1, 1973. Amtrak is required to provide service on the Basic System until that time pursuant to the Act. After that time, the Corporation may discontinue service on the Basic System. Thus, while Amtrak can reexamine its responsibilities after that date, it has a statutory responsibility to maintain service on the Basic System in the interim.

The Department believes additional Federal funds are warranted for two basic reasons. First, we view this period to July 1, 1973 as an experimental effort to determine the appropriate role and level of rail passenger service in the development of a balanced national transportation system. A fair test for this effort requires that the corporation be given the opportunity to provide quality service and to restructure and revitalize its rail passenger system network to make it competitive with other modes. Second, if the corporation continued to operate within the present levels of funding, it would have to take severe actions in curtailing service and reducing its capital program, thereby making

it impossible to accomplish its established goals of improving and revitalizing rail passenger service as intended by the Act.

I believe it is important to keep in mind here the context in which the Rail Passenger Service Act was enacted. At the time the Act was being considered by Congress, it was apparent that existing rail passenger service not only was dwindling in size and quality, but was in danger of extinction. The Nation was faced with basic alternatives at that time. The first was to subsidize existing service and thereby merely keep alive and perhaps slightly improve the badly deteriorating systems run by the railroads. The second was to allow the very few economically viable trains to survive under existing railroad management and to permit the others to eventually die. The third was to place passenger service under new management, which could restructure service, cut costs, and provide for the improvement of the quality of service to determine whether there was, indeed, a true place for rail passenger service in a modern national transportation system.

Based on the limited operational and organization changes which were feasible during the past six months of operation, I believe it is unreasonable to expect results now in increased ridership and reduced costs. We are confident that such results can be achieved, but that

they will take time. We recommend, therefore, that Amtrak be given the opportunity to carry out its plans through the end of the next fiscal year. By that time, we can more accurately examine and evaluate performance and the prospects for the future and take appropriate action.

Let me now discuss two questions that must be addressed in considering this proposal: (1) Why didn't earlier forecasts give a better indication of the anticipated deficits; and (2) why are the losses during the first two years so high?

As I described earlier, the Act required the Secretary to designate a preliminary Basic National Rail Passenger System within 30 days of enactment and a final Basic System within 90 days. During both phases of this process the Department made financial forecasts. At the time these projections were made, Amtrak had not yet been formed, and there were simply no corporate decisions on such crucial policies as the level of service to be provided, fare structure, the acquisition of equipment, the handling of mail, etc. In the absence of these essential management decisions, our analysts had to make numerous assumptions about these matters. Finally, the amount and quality of data that was available on rail passenger service costs were seriously inadequate.

In short, the projection of a corporation's finances is a difficult task under ordinary circumstances for an ongoing firm with an established product and market. In this instance, we had a new firm, an uncertain

market, and many other unknowns. I feel this explanation is necessary to indicate why our projections varied from Amtrak's current projections.

Early in May, the key corporate decisions were made. Then Amtrak was in the position of asking the 13 carriers to prepare budgets actually based on signed operating contracts between Amtrak and the railroads, the actual level of service, and the fare policy. The budget forecasts from the participating carriers were received in early June. These provided estimates for the remainder of 1971. After careful review, these budgets were used by Amtrak to project the estimated operating losses for FY 1972 and FY 1973, calculated to be \$152.3 and \$123.8 million, respectively.

Based on these anticipated losses and including the corporation's planned capital program, the corporation estimates that it will require an additional \$170 million during the next two years. This is in addition to the planned use of \$100 million in Federal guaranteed loans and the one-time income to be derived over this period from the railroads in consideration of Amtrak relieving them of their operating responsibility. I understand Amtrak has already submitted to this Committee financial statements explaining these amounts in greater detail.

With respect to the second question I raised earlier, let me say at the outset that as far as we can tell the reasons for the first year losses being so high seem to come from a series of interrelated items, none of which have been completely delineated. The following items have been identified by Amtrak as major contributors to the present deficit:

1. It has been more difficult, time consuming, and costly to integrate the operations of 13 carriers than anticipated. Consequently, savings resulting from unified national operations, while clearly attainable, will be achieved over a longer time frame. Specifically, I have in mind the savings to be achieved from consolidating ticket offices, centralizing commissary operations, and establishing a national reservation information and ticketing service. On the positive side, we should note that the corporation projects about a \$30 million reduction in the deficit in FY 1973, even though costs will increase.
2. It will take longer than anticipated to tackle the high costs resulting from many of the large, out-dated, and inefficient passenger terminals.
3. The transitional period in May during which Amtrak assumed responsibility for passenger service did result in disrupted ridership and reduced revenues.
4. The benefits of Amtrak operation, namely improvements in equipment and service, are just beginning to take place. The improvements to date have been limited.

These will accelerate with each month. However, it will be some time before one can expect the resultant increased ridership and revenues.

5. If Amtrak is to improve the existing level of service, one of the first actions will be to improve the rolling stock by both refurbishing existing cars and locomotives as well as to purchase new equipment. This will require an extensive and costly capital program.
6. The bills being submitted by the 13 carriers are in the process of being audited. The audit will not be completed before the end of the year. The audit is examining not only the appropriateness of the charges but also whether the carriers are providing unnecessary services and should assist in the standardization of costs among the 13 carriers.

I am sure you will discuss with Roger Lewis the specifics of Amtrak's active cost reduction program, their service improvement program, their capital program, and the preliminary results of their audit to date. Prior to requesting appropriations under our bill we will carefully review the levels of cost and service to insure that the system contains no demands on resources which are not essential during the next 26 months.

In this connection, we have already followed closely Amtrak's progress in these programs. For example, their plans to refurbish existing equipment and procure new equipment, consolidate ticket offices, improve scheduling, install a national ticketing, information, and reservation system, and improve passenger amenities are major steps. These are the product of a unified, passenger-oriented management taking the necessary steps to revitalize intercity rail passenger service.

In the process of reviewing our current proposal, we noted that Section 308 of the Act requires the Corporation to submit an annual report. The report shall include "such legislative recommendations as it deems desirable, including the amount of financial assistance..." Thus, the Act anticipated that additional funding might be required in the future.

Also, the statement of purpose, Section 101, states that a "modern, efficient, intercity, railroad passenger service is a necessary part of a balanced transportation system..."

Taken together we believe the Act intends to preserve a viable intercity rail passenger system in this country. The Act specified that until July 1, 1973 service will be conducted on a nationwide basis over the Basic System. The Act, however, implied a major evaluation subsequently. We believe it important that between now and July 1, 1973 no options be foreclosed.

It is for this reason, we believe it would be inappropriate and self-defeating to reduce the operating losses by either curtailment of service irrespective of long-term potential, or deferrment of the capital program.

In summary, we continue to believe that the Act was a well-conceived approach. At the moment, we believe we should continue on the present course until we have had an adequate opportunity to assess public response to the improved service which Amtrak will provide. The Department continues to believe that intercity rail passenger service has a vital role in a balanced national transportation system. Indeed, our analysis continues to confirm this. The primary issues to be decided are the level and quality of service to which passengers will respond in enough volume to make the service economically feasible and the routes that have such potential. The additional funds for Amtrak provided in our proposal will provide us the test results necessary for this determination. We think it is a worthwhile investment, and we urge enactment of this legislation.

This concludes my prepared statement, Mr. Chairman. I will be happy to answer any questions you or members of the Committee might have.